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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS TIRANA 000790

SIPDIS
SENSITIVE

DEPT FOR EUR/SCE J.ISMAIL
TREASURY FOR V.ATUKORALA

E.O. 12958:N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [AL](#)

SUBJECT: ALBANIA'S BANKING SECTOR SEEMS OK - FOR NOW

REF: A. TIRANA 653 B. TIRANA 757

Summary

1. (SBU) International financial experts and the Governor of the Albanian Central Bank (CB) believe that Albania is weathering the global financial crisis quite well due to precautionary moves by the CB to keep deposits in Albania as well as a much lower ratio of loans to deposits than is common in the west. Of Albania's 17 banks, only seven may be losing money, but together they account for only a small percentage of the sector's assets. The CB Governor has flagged over-exposure to foreign currency as a potential problem and declining remittances could also lead to increased unemployment.
End Summary.

Banking Sector Was Robust Through Last Summer

2. (U) Albania's banking system has maintained a healthy growth rate according to several metrics - total assets, range of products and services, loans to businesses and individuals, number of employees, and equity capital. The banking sector remains profitable despite the global financial crisis (GFC). 2007 revenues reached \$132 million, up 18.7 percent over the previous year, and growth has continued during the first half of 2008. The banking system remains liquid due to the low ratio of loans to deposits (54 percent in June 2008) and precautionary moves by the Central Bank.

3. (SBU) Eighty eight percent of bank equity capital belongs to foreign investors, mostly from EU member countries, while only 9.4 percent is of domestic origin. Foreign direct and indirect capital presence has significantly increased over the last few years as big international banks like Raiffeisen, Intesa San Paolo, Societe Generale and Credit Agricole have entered the Albanian market and increased competition in the sector, which had previously been dominated by Greek banks.

4. (SBU) Of Albania's 17 banks, the top five hold almost 75 percent of the sector's total assets. Austria's Raiffeisen is the largest, with almost thirty percent of total banking assets and 100 branches, twice as many as second place Intesa San Paolo (formerly American Bank of Albania, founded by the Albanian American Enterprise Fund, an OPIC-sponsored equity fund). The bottom five banks represent only 2.5 percent of total bank assets. Their deposits are just 1.37 percent of the total while their loans represent only two percent of total loans.

5. (SBU) For the first half of 2008, despite robust sector profits of \$70 million, seven banks suffered combined losses of \$7.5 million. These losses are partially the result of bad loans, a consequence of the smaller banks vying for market share as Albania's credit growth expands (Ref A). For instance, Union Bank is the last bank incorporated in Albania and has increased its number of branches from four at the end of 2006 to 24 by June 2008. Emporiki

Albania is also expanding rapidly after its Greek parent was purchased by Credit Agricole.

¶6. (U) Despite a short period of higher withdrawal activity recently (Ref B), the CB believes that current indicators point to a healthy banking system, with good liquidity, a good capitalization rate and non-performing loans within reasonable limits. However, at a recent economic conference, CB Governor Fullani expressed concern about over-exposure of retail borrowers to loans in foreign currencies. Since most deposits are in domestic currency (lek) but loans are frequently in foreign currency (generally euro-denominated) to take advantage of lower interest rates, the CB has advised commercial banks to offer more loans in lek in order to protect both their customers and themselves from exchange rate fluctuations. In addition, the CB recently reduced the amount of funds domestic banks can transfer to their foreign parent banks to ten percent of their deposits.

Comment

¶7. (SBU) The CB so far has done a good job in balancing the need to project confidence in the Albanian banking system while at the same time taking steps to guard against or soften the blow of any potential economic slowdown. International financial institutions are also optimistic, saying that Albania should experience only a slight decline in GDP, to perhaps just under six percent in 2009. However, three factors could change the outlook quickly: 1) the failure of one or more banks, 2) a spike in unemployment and a weaker lek due to declining remittances, and 3) banking problems in neighboring countries affecting both trade and investment.

WITHERS